13 June 2022

Ulster Bank
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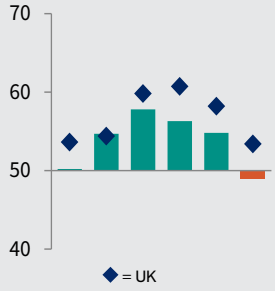
Ulster Bank Northern Ireland PMI®

Business activity falls for first time in 14 months

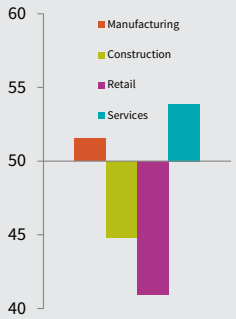
Northern Ireland Business Activity Index

May '22
49.0
Apr: 54.8

Dec '21 - May '22



May '22



Key findings

Output and new orders contract

Strong cost pressures lead to record rise in selling prices

Companies pessimistic regarding year-ahead outlook

Companies in Northern Ireland posted reductions in output and new orders during May as steep inflationary pressures hit demand. Indeed, output price inflation was at a record high. The impact of price pressures also hit business expectations, which turned negative. On a more positive note, employment continued to rise.

The headline seasonally adjusted Business Activity Index fell to 49.0 in May, well down from the reading of 54.8 seen in April and below the 50.0 no-change mark for the first time in 14 months. Falling new orders, increases in the cost of living and market uncertainty were the main factors leading output to decrease.

Activity declined in the construction and retail sectors, while softer expansions were seen in manufacturing and services.

New orders fell at a solid pace, and one that was the sharpest since February 2021. Respondents indicated that inflationary pressures had hit demand.

The strength of inflationary pressures was highlighted by output prices rising at a record pace for the second month running amid the passing on of higher input costs to customers. Input prices themselves increased at a near-record pace. Firms signalled higher costs for energy, fuel, raw materials and staff.

The impact of rising costs on demand also acted to depress business sentiment, which turned negative for the first time in just over a year-and-a-half. The retail sector signalled a particularly gloomy outlook for activity.

Despite declines in output and new orders in May, companies in Northern Ireland continued to raise their staffing levels, and at a solid pace that was broadly in line with that seen in April.

Northern Ireland Business Activity Index
sa, >50 = growth since previous month



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About the Northern Ireland PMI® report

The Ulster Bank Northern Ireland PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 200 private sector companies in Northern Ireland, operating in the manufacturing, construction, retail and services sectors. The panel has been carefully selected in order to accurately reflect the true structure of the economy and therefore provide an accurate picture of business conditions.

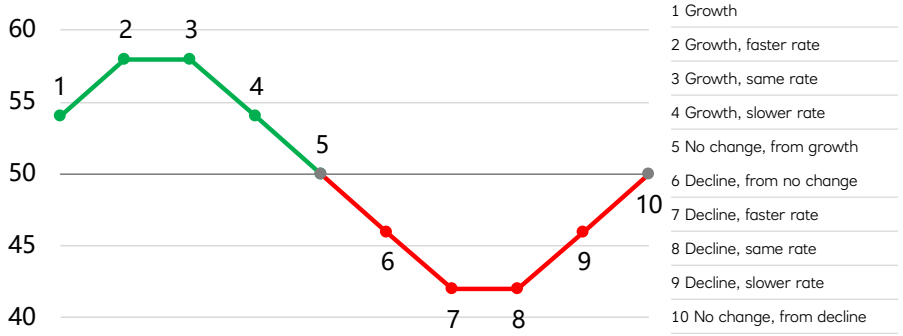
Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The Northern Ireland Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Northern Ireland PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Index interpretation
50.0 = no change since previous month





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Comment

Commenting on the latest survey findings, Richard Ramsey, Chief Economist Northern Ireland, Ulster Bank, said:

"Economic forecasts at a global and UK level continue to be downgraded on an almost monthly basis. The latest survey of Northern Ireland's private sector saw the deterioration in business conditions accelerate in May. Local firms reported a fall in business activity for the first time in 14 months with the significant declines in retail and construction outweighing continued growth within the manufacturing and services sectors. Inflationary pressures and heightened uncertainty are hitting demand and delaying investment. Input cost inflation in May fell just shy of October's record rate but local firms increased their prices at the fastest pace in the survey's history. The cost-of-living crisis is making its presence felt, particularly on retail, with both sales and new orders slumping in May. Construction remains mired in an order book recession with last month's steep decline marking the eleventh successive month of contraction.

"The overall outlook is for things to get worse, with new orders falling at their fastest pace since February last year. Northern Ireland firms' order books contracted at the fastest rate amongst the 12 UK regions. Manufacturing, services , construction and retail all contributed to the drop in incoming business. Despite the advantages afforded to local firms through the NI Protocol, Northern Ireland firms remain the least optimistic of any UK region regarding sales / activity in 12 months' time. Local firms expect sales and activity to fall in a year's time with this negativity driven by retail. Manufacturing is the only sector projecting meaningful growth in 12 months' time.

"The picture regarding employment is much more robust. It is the one bright spot in the survey, with continued growth in firms' staffing levels reported for the 15th month in succession. But skills shortages remain a problem, from both a capacity and wage pressure perspective. It remains to be seen how a slowdown in the economy will improve this, providing one potentially silver lining to the downturn cloud.

"Overall, with economic conditions set to deteriorate, the call for the Chancellor and Stormont to provide additional support for business is set to intensify."

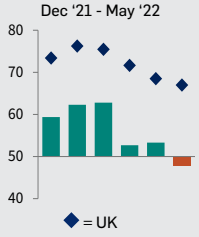


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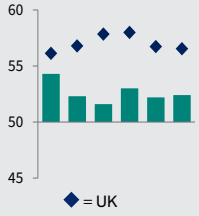
New Business Index
Dec '21 - May '22



Future Activity Index
Dec '21 - May '22



Employment Index
Dec '21 - May '22



Outstanding Business Index
Dec '21 - May '22



Demand and outlook

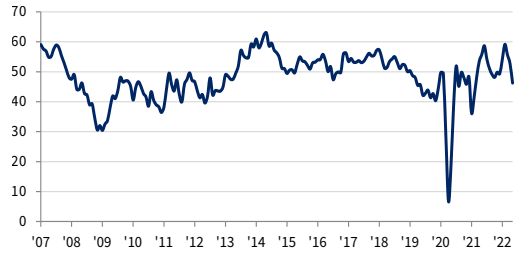
New business falls for first time in five months

May data pointed to a reduction in new orders in the Northern Ireland private sector, thereby ending a four-month sequence of growth. Moreover, the rate of contraction was solid and the most marked since February 2021. Anecdotal evidence suggested that inflationary pressures had hit demand, with consumers reluctant to commit to new projects. New business fell across all four monitored sectors, with the steepest declines in construction and retail.

Pessimistic outlook signalled

The impact of higher living costs on demand led sentiment among companies in Northern Ireland to turn negative midway through the second quarter, with a pessimistic outlook signalled for the first time in just over a year-and-a-half. Negative sentiment was signalled at retailers, while construction firms posted a neutral outlook. The manufacturing and services sectors remained optimistic, but less so than had been the case in April.

New Business Index 46.2
sa, >50 = growth since previous month May '22



Future Activity Index 47.8
>50 = growth expected over next 12 months May '22



Business capacity

Staffing levels continue to increase

Despite renewed falls in output and new orders, companies continued to raise their staffing levels during May. The solid increase in employment was broadly in line with that seen in April and extended the current sequence of job creation to 15 months. That said, the rise in workforce numbers in Northern Ireland was softer than the UK average. Staffing levels rose in the manufacturing, services and construction categories, but were broadly unchanged in the retail sector.

Sharp slowdown in rate of backlog accumulation

Although outstanding business continued to increase during May, the rate of accumulation slowed sharply from April and was the softest in the year-to-date. Where backlogs rose, panellists linked this to staff shortages and problems with material supply. On the other hand, a slowdown in demand meant that some companies were able to work through their outstanding business.

Employment Index 52.4
sa, >50 = growth since previous month May '22

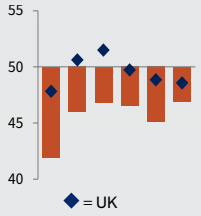


Outstanding Business Index 53.0
sa, >50 = growth since previous month May '22



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New Export Business Index
Dec '21 - May '22

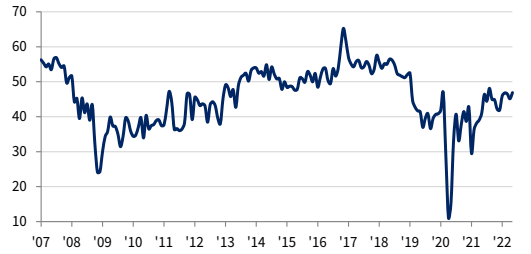


Exports

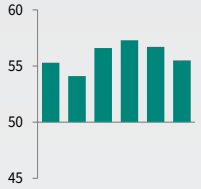
New business from abroad falls solidly

New export orders decreased again in May, extending the current period of contraction to 40 months. The rate of decline was solid, but eased to the slowest since August last year. According to respondents, increased charges and higher shipping costs were behind the latest fall in new business from abroad.

New Export Business Index
>50 = growth since previous month
46.9
May '22



Export Climate Index
Dec '21 - May '22



Export climate continues to improve

The Northern Ireland Export Climate Index (ECI) is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of Northern Ireland. This produces an indicator for the economic health of the country's export markets.

The ECI was at 55.5 in May, signalling a further solid improvement in demand conditions in export markets. This was despite the index dropping from 56.7 in April and hitting its lowest mark since January.

The overall picture was matched by the trend in output in the Republic of Ireland, where output rose sharply again in May, but at the slowest pace since January. Meanwhile, the US saw a marked loss of growth momentum midway through the quarter. Germany and the Netherlands also saw rates of expansion ease, but Canada posted a faster rise in manufacturing production.

Export Climate Index
sa, >50 = growth since previous month
55.5
May '22



Top export markets, Northern Ireland

Rank	Market	Weight	Output Index, May'22
1	Republic of Ireland	38.6%	57.5
2	USA	12.5%	53.6
3	Canada	5.6%	55.6
4	Germany	4.3%	53.7
5	Netherlands	3.9%	53.1



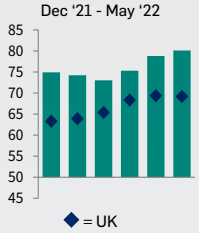
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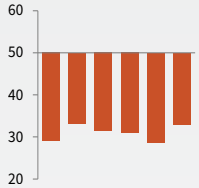
Input Prices Index
Dec '21 - May '22



Prices Charged Index
Dec '21 - May '22



Suppliers' Delivery Times Index
Dec '21 - May '22



Prices

Input price inflation quickens

The rate of input cost inflation accelerated for the third month running in May and was only fractionally slower than the series record posted in October 2021. The latest rise in input prices reflected a range of factors. Higher costs for energy and fuel were widely mentioned, while raw material prices continued to increase. Firms also reported rising staff pay. Substantial cost inflation was seen across all four monitored sectors.

Input Prices Index 90.2
sa, >50 = inflation since previous month May '22



Further record rise in selling prices

Output price inflation continued to climb higher in May, hitting a record for the second month running as 62% of respondents raised their selling prices over the month in response to higher input costs. The increase in Northern Ireland was by far the fastest of the 12 monitored UK regions. Rapid inflation was seen across all four sectors, led by retail. Services posted the fastest rise in charges on record.

Prices Charged Index 80.1
sa, >50 = inflation since previous month May '22

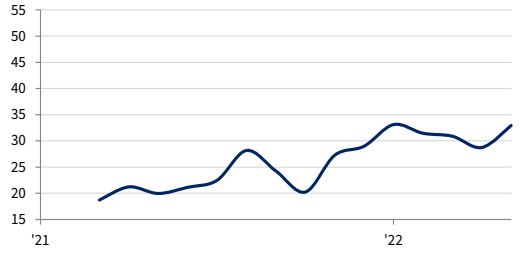


Suppliers' Delivery Times

Further lengthening of supplier lead times

As has been the case in each month since this question was added to the survey in March 2021, suppliers' delivery times lengthened in May. Respondents linked delivery delays to Brexit, longer shipping times, the war in Ukraine and COVID-19 lockdowns in China. Although substantial, the latest deterioration in vendor performance was the softest since January.

Suppliers' Delivery Times Index 33.0
sa, >50 = shorter delivery times since previous month May '22





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UK Sector PMI

Sector specialisation: Northern Ireland

Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for Northern Ireland, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

Northern Ireland specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, May '22+
1	Electrical & Optical	1.42	
2	Food & Drink	1.26	
3	Textiles & Clothing	1.19	
4	Other Manufacturing	1.09	
5	Basic Metals	0.98	
6	Timber & Paper	0.92	
7	Mechanical Engineering	0.88	
8	Chemicals & Plastics	0.78	
9	Transport	0.77	

45 50 55 60

Northern Ireland specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '22+
1	Hotels, Restaurants & Catering	1.34	
2	Personal & Community Services	1.23	
3	Transport & Communication	1.22	
4	Business-to-business Services	0.89	
5	Computing & IT Services	0.89	
6	Financial Intermediation	0.66	

45 50 55 60 65

UK sector focus

Transport & Communication

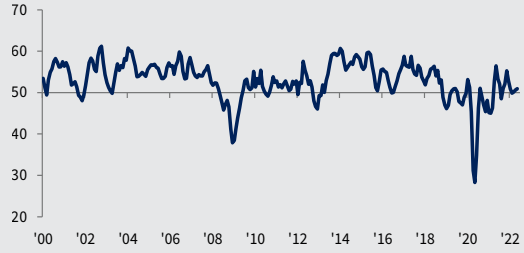
The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

Output Index

sa, >50 = growth since previous month (3mma)+



+ 3-month moving average



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UK Regional PMI overview

Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland* and the North East.

Employment

London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (namely the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

Future Activity

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

Business Activity Index
sa, >50 = growth since previous month, May '22



Employment Index
sa, >50 = growth since previous month, May '22



Future Activity Index
>50 = growth expected over next 12 months May '22



*Coverage in England, Wales, Scotland and Republic of Ireland only includes manufacturing and services. Northern Ireland also includes retail and construction.



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Index summary

Northern Ireland

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	New Export Business	Export Climate	Input Prices	Prices Charged	Suppliers' Delivery Times
Dec '21	50.2	49.3	59.4	54.3	51.2	41.9	55.3	87.7	74.9	29.0
Jan '22	54.7	54.1	62.3	52.3	53.9	46.0	54.1	86.1	74.2	33.1
Feb '22	57.8	59.1	62.8	51.6	57.2	46.8	56.6	84.8	73.0	31.5
Mar '22	56.3	55.6	52.7	53.0	58.6	46.5	57.3	88.9	75.3	30.9
Apr '22	54.8	52.8	53.3	52.2	57.5	45.1	56.7	89.8	78.8	28.7
May '22	49.0	46.2	47.8	52.4	53.0	46.9	55.5	90.2	80.1	33.0

By Sector, May '22

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Manufacturing	51.5	45.7	53.9	52.6	52.6	91.9	83.2
Construction	44.8	42.2	50.0	54.2	53.0	93.3	84.3
Retail	41.0	42.8	38.9	49.9	43.6	96.3	92.3
Services	53.9	49.6	50.7	52.2	56.8	87.2	71.4

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We work together to achieve business success, no matter how simple or complex our customers' requirements. A combination of size, financial strength and wide ranging capability means we can deliver for our customers, whatever their business may be.

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